



BURGER · COMER · MAGLIARI
CERTIFIED PUBLIC ACCOUNTANTS

April 19, 2017

To the Board of Commissioners
Guam Housing and Urban Renewal Authority:

In planning and performing our audit of the financial statements of the Guam Housing and Urban Renewal Authority (the Authority) as of and for the year ended September 30, 2016, on which we have issued our report dated April 19, 2017, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Guam Housing and Urban Renewal Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, other matters as of September 30, 2016 that we wish to bring to your attention.

We have also issued a separate report to the Authority also dated April 19, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

This report is intended solely for the information and use of the Board of Commissioners and management of the Guam Housing and Urban Renewal Authority, the Office of Public Accountability – Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions. We wish to thank the staff and management of the Guam Housing and Urban Renewal Authority for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads 'Burger Comer Magliari' in a cursive script.

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APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We noted certain matters related to control deficiencies involving the Authority’s internal control over financial reporting as of September 30, 2016 and other matters that remain uncorrected that we wish to bring to your attention as follows:

Public Housing – Tenant File Quality Control Review

Comment: During our eligibility compliance testing, we noted that the Authority does not conduct periodic quality control testing on a consistent basis to identify deficiencies and/or missing documentation for completeness. For those files reviewed, we noted that certain Property Site Managers (PSMs), particularly AMP 4, were signing off on the review and completeness of the files; however, we found numerous errors and missing and incomplete documentation that remained uncorrected. In certain instances, file documentation was prematurely shredded and could not be located. The lack of a thorough review raises doubt regarding the PSM’s ability to review the Housing Specialist’s work and to properly certify tenant eligibility.

Recommendation: PSMs need to exercise better care when conducting internal control reviewed and certified for completeness, the reviewer should document discrepancies and provide evidence that such discrepancies were cleared for third-party independent review and verification and such should be signed and dated by the reviewer. To enhance the Authority’s quality control and internal control monitoring procedures,

We also recommend that the Authority establish and implement a file retention policy and document what tenant information should be carried over from year-to-year, what can be “dummied” and eventually discarded.

Public Housing – Oversight of Property Site Managers

Comment: GHURA has four Asset Management Projects (AMPs) managed by Property Site Managers (PSM). Oversight functions reside with GHURA’s Deputy Director which has facilitates internal control monitoring; however, Administrations change periodically and therefore there is no consistent knowledgeable oversight over the Program within the Authority. We’ve noted that the during the course of time, each AMP as created, revised and adopted certain practices unique to each PSM’s preference providing no consistency with various forms used to process and document tenant eligibility. As a result, we noted significant inconsistencies in checklist used, file maintenance, forms used, forms processed and documented. These inconsistencies have led to some confusion as to how files should be maintained and vary among each AMP.

Recommendation: We recommend that the Authority consider appointing or hiring an individual with knowledge and skill to manage and oversee all four AMPS and PSMs. This individual can maintain and update the Admission and Continued Occupancy Policies (ACOP); provide training for cross-training; conduct quality control review; development consistent policies and practices and forms to be used; monitor lease-up and occupancy and related vacancies; among other responsibilities and report to the Deputy Director. We believe this would facilitate and enhance Program integrity and the Authority’s quality control and internal control monitoring procedures.

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Public Housing – Work Orders

Comment: We noted work orders are not completed in a timely manner. Numerous large stacks of work orders that were not completed particularly at AMP 4. We found no evidence that these work orders were being tracked, scheduled in a timely manner, and properly identified as emergency work orders and regular routine maintenance.

Recommendation: We recommend that management review its work order policies and procedures to ensure that all emergency repairs and work orders are completed in a timely manner. Work order reports should be independently reviewed and monitored to ensure compliance with HUD regulations.

Section 8 Housing Choice Voucher – Landlords

Comment: In order to conduct business in the Territory of Guam, landlords must be properly licensed with the Guam Department of Revenue and Taxation. Based on our review of tenant and related landlord files, we noted that annual business licenses are not consistently obtained by GHURA to verify that landlords were properly licensed. The Authority only obtains business licenses from new landlords entering into HAP contracts but not on an annual basis.

Recommendation: We recommend that the Authority establish a policy and procedure to obtain landlord business licenses on an annual basis to ensure that landlords are properly licensed to conduct business in the Territory of Guam and to prevent improper payments to unlicensed landlords and to mitigate potential fraud and improper payments.

Section 8 Housing Choice Voucher - Landlord File Maintenance

Comment: During our compliance testing of the Section 8 HCV program, certain tenant landlord files selected in conjunction with our sample were found to be in total disarray. Required documentation was being inserted in the landlord files in our presence. We noted that numerous files lacked complete documentation as required (certificate of title, warranty deed, business license, direct deposit authorization forms, etc.); documents were loosely placed in files and unorganized. Staff stated insufficient time is available to properly manage the files. There is no standardized checklist used to ensure that required documentation is maintained and updated as needed.

Recommendation: The Authority should establish internal control policies and procedures over the maintenance and content to be included in landlord files. An individual should be assigned to maintain tenant files. The current landlord file checklist should be reviewed and revised to ensure that it encompasses all required documentation needed from landlords. Management should consider removing this function from the Housing Inspector or providing guidance over the maintenance of such files and monitor landlord file maintenance on a periodic basis. The updating of landlord files should be coordinated with Housing Specialist during initial and recertification of tenant eligibility to ensure that information is shared and required documentation is obtained and filed in a systematic and timely manner.

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Section 8 Housing Choice Voucher – Tenant File Quality Control Review

Comment: During our eligibility compliance testing, we noted that GHURA conducts periodic quality control testing to identify deficiencies and/or missing documentation for completeness. We noted various items cited by reviewers; however, there was no evidence to indicate that the deficiencies were corrected and approved by the reviewer.

Recommendation: To enhance the Authority's quality control and internal control monitoring procedures, when Section 8 HCV files are internally reviewed and certified for completeness, the reviewer should document discrepancies and provide evidence that such discrepancies were cleared for third-party independent review and verification and such should be signed and dated by the reviewer.

Section 8 Housing Choice Voucher – Maintaining Database for Unassisted Units

Comment: Before entering into a HAP contract, a Public Housing Authority (PHA) must not execute a HAP contract until it has documented that the charged rent is reasonable. Before the PHA may approve any rent increase to the owner, the PHA must determine and document whether the proposed rent is reasonable compared to similar units in the marketplace and not higher than those paid by unassisted tenants. The key for rent reasonableness is to be able to compare the rents for proposed program units to the rents for units currently or very recently placed on the market. To include rents for units occupied for several years is likely, in most markets, to understate the rents new tenants will have to pay. On the other hand, in some communities the asking rent is frequently higher than the actual rent owners are willing to accept. In those communities, the PHA should also obtain information on the actual rents for recently rented units to determine the actual market rent for the comparable units.

Recommendation: Management should consider updating its database on more periodic basis by either conducting surveys, reviewing newspaper listings real estate companies that handle rental properties, internet listing, current landlord that have unassisted rental properties, etc. How often the data should be updated depends upon market conditions. In some communities on Guam, it may be adequate to update the information every two years. For rapidly changing markets, however, it may be appropriate to update the database quarterly.

Revolving Fund

Comment: The Authority utilizes and maintains a revolving fund as its primary fund for disbursing payments and receiving funds. We continue to note that other funds federal and non-federal programs are accounting for and maintained in the revolving fund which creates difficulty when reporting on a fund basis.

Recommendation: The revolving fund should only be used for the receipt and disbursement of funds to account for inter-fund activity to support the operations of other funds and programs. It should not be used for maintaining the general ledger accounts for specific federal and local programs and funds. We recommend that the Fiscal Division consider limiting the use of the revolving fund for such activities and purposes.

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Fiscal Division – Staffing

Comment: During our audit, we noted that the Fiscal Division lacked sufficient staff to perform its various accounting functions. The Authority has eight (8) accountants, of which, two are assigned to the Research, Planning and Evaluation (RP&E) Division and yet is it still unable to maintain its books on a current basis to produce financial statements in a timely manner. Given the volume of transaction processing, account reconciliation, payroll, budgeting, internal and external HUD reporting requirements, the Fiscal Division appears to lack a mid-level manager to oversee the day-to-day functions of accounting technicians, entry level accountants and temporary staff assigned to the Division. We also noted that temporary and unqualified staff were used to retrieve and provide documentation who were unfamiliar with the requirements and information needed and therefore unable to provide such information in a timely manner.

Recommendation: Management should assess its processes to improve the efficiency and consider realigning current staff between the Fiscal Division and the RP&E. The General Accounting Supervisor (GSA) assigned to RP&E was instrumental during the audit. Management should consider rotating this staff person Fiscal Division and reassigning an Accountant III to RP&E and the GSA can oversee RP&E accounting functions and report to either the Deputy Controller or Controller.

REPEAT COMMENTS

Fiscal Division – Accounting System

Comment: The Fiscal Division continues to maintain two locations to process and account for the funds managed by the Authority. While the Fiscal Division at the Authority's main office maintains the official accounting records, a separate general ledger is maintained at the Research, Planning and Evaluation (RP&E) Division to account for the Community Development and related Federal grant programs. The accounting systems used remain separate independent systems.

Recommendation: We made recommendation in prior years on the logistical structure of the Fiscal Division and the possibility of merging the two systems. We repeat those recommendations. Subsequent to September 30, 2014, the RPE Division was relocated to the Authority's central office.

We also recommend that management consider obtaining a new accountings system that reports on a fund basis, as the current accounting software platform is specifically program driven and not necessarily for financial reporting. Consequently, numerous manual journal entries must be made each month to record accounting transactions which too is cumbersome and requires numerous month-end reconciliations.

Fiscal Division – Comingling of Funds

Comment: The accounts of GHURA are organized and operated on the basis of funds and grant programs. Fund financial statements report detailed information about the Authority. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net position, revenues, and expenses. We continue to note that the Fiscal Division comingling various funds due to reporting requirements to HUD's Real Estate Assessment Center (REAC) for FDS reporting purposes.

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Fiscal Division – Comingling of Funds, continued

Specifically, the Capital Fund Project funds are comingled with the four Asset Management Projects of the Public Housing program along with Central Office Cost Center (COCC); the Department of Interior Grant is comingled with the Revolving Fund; and the Multifamily Housing Service Coordinator grant is comingled with Supporting Housing for the Elderly Program.

Recommendation: While we understand the need to combine certain funds for HUD periodic reporting, we recommend these funds be separately reported within the general ledger in order to produce individual trial balances and financial statements in a timely manner rather than relying on pivot tables and supplemental spreadsheets.

Monthly Accounts Payable Aging Reports

Comment: The Authority was not able to produce monthly accounts payable aging reports due to system limitations. Although the Fiscal Division tracks the Authority's accounts payable via the payables journal, Accounts Payable Aging reports can only be produced at year-end closing. Consequently, the Authority is unable to properly monitor the aging of its accounts payable and effectively manage cash flows.

Recommendation: We recommend that the Authority consult with its software vendor and obtain a software patch or modification to generate monthly accounts payable aging reports.

Asset Management Project – Property Site Manager File Review

Comment: Tenant interviews and eligibility certification should be performed by Housing Specialist and reviewed and certified by the Property Site Managers (PSM). PSMs are not properly documenting their review and certification nor are the file checklist being properly signed and dated to evidence independent review.

Recommendation: To ensure proper segregation of duties, we recommend that all PSMs review all tenant files for completeness and proper certification of program eligibility and sign and date the checklist to evidence tenant file review.

Local Funds

Comment: GHURA reports on a "fund basis" and accounts for approximately eighty-five (85) different funds, of which, twenty (20) are local funds. Many of the local funds have nominal to no activity each year.

Recommendation: We recommend that management consider reviewing the mandate of each of its local funds to determine whether those mandates have been fulfilled and whether such funds can be closed out or consolidated under one separate fund.